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April 10, 2006

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, MA 02110

Re: NSTAR Gas Company, D.T.E. 06-10

Dear Secretary Cottrell:

On behalf of NSTAR Gas Company (the "Company"), please find attached the Company's responses to the First Set of Information Requests of the Department of Telecommunications and Energy in the above-referenced proceeding.

Thank you for your consideration and assistance in this matter.

Very truly yours,

John K. Habib

John K. Habib

Enclosures

cc: Carol Pieper, Hearing Officer
Jamie Tosches, Assistant Attorney General
Service List

Information Request DTE-1-1

Refer to lines 4 through 9 on page 10 of Exhibit MAG-1. The Company states that in order to support the construction of incremental capacity, Union Gas Limited ("Union Gas") and TransCanada Pipelines Limited ("TransCanada") required participants to commit to ten-year contracts (from 2006 to 2016). To what extent did the prospect of committing to an additional five years beyond the termination dates of NSTAR's existing Tennessee and Iroquois transportation contracts deter the Company from executing contracts with Union Gas and TransCanada?

Response

The Company might have committed to the ten-year contracts on both Union and TransCanada if the remaining terms of the proposed contracts were acceptable to the Company. When NSTAR Gas participated in both pipelines' "Open Seasons" it was aware that at least 10-year contracts would be required.

When the pipeline "Open Seasons" were completed, the Company was presented with contracts to sign with terms that were unattractive, particularly as they related to the obligation of the Company to potentially incur costs associated with the addition of capacity on these pipelines, even if the projects did not receive regulatory approval and were cancelled. Therefore, the Company took the opportunity to reevaluate its options. Among the important facts that influenced the Company' reevaluation was that the other members of the ANE II Customer Group were planning to execute the TransCanada/Union contracts, which meant that over 200,000 dekatherms a day of incremental capacity would be constructed on the TransCanada system to Waddington. The Company was confident that, given this situation, there would be adequate liquidity at Waddington to obtain competitive supplies for its required quantity for the remaining term of the Iroquois and Tennessee transportation contracts. Accordingly, the Company decided to pursue securing downstream gas supply rather than execute contracts for upstream capacity that included additional risks for the Company's customers.

Information Request DTE-1-2

Refer to lines 12 through 17 on page 10 of Exhibit MAG-1. Elaborate on the provisions concerning the allocation of project risk between the Alberta Northeast Gas, Ltd., ("ANE") Group and TransCanada. Can the Company quantify the risk and costs NSTAR customers would have been exposed to had the project been cancelled?

Response

TransCanada's proposed contract language required project participants to be exposed to risks associated with TransCanada not obtaining approval from the Canadian National Energy Board (NEB) to add incremental capacity to its pipelines. In order to complete the project by November 1, 2006, TransCanada was required to incur costs before it actually obtained final approval from the National Energy Board. It insisted on recovering these costs from participating customers if the project did not proceed.

The ANE Customer Group estimated the amount of liability that each participant would be subjected to under a scenario in which the project was cancelled: (1) during the first quarter of 2006; and (2) under a worst case scenario in which it was cancelled after all the projected costs had been incurred. NSTAR Gas's estimated exposure was about $132,000 CN or about $106,000 US if cancellation occurred by the end of the first quarter of 2006. The Company's exposure was estimated at about $1.577 million CN or about $1.246 million US if the worst case scenario occurred.

In evaluating the alternatives, the Company determined that there would be no risk of cancellation if it withdrew from the expansion projects and if it was successful in obtaining competitive supplies at Waddington. The likelihood of the Company's ability to obtain competitively priced supplies at Waddington was very high, given that NSTAR Gas only needed 4,500 dth/day and the remaining ANE II customers were committing to over 200,000 dth/day of incremental capacity on TransCanada. Therefore, the Company decided to not participate in the ANE II expansion projects.

Information Request DTE-1-3

During the request for proposal ("RFP") process, did the Company provide any RFP respondent with an opportunity to revise or change the terms of its original response?

Response

Yes. The Company sought clarifications from Bidders when the Company had questions on a Bidder's original proposal. In addition, the Company sent confirmations to Bidders that were selected for the short list, which included an opportunity for the Bidder to refresh its final bid before the Company made the final recommendation to the Senior Management Committee. Several Bidders, including Constellation, took the opportunity to do so in order to reflect then-current market prices for gas supply.

Information Request DTE-1-4

Refer to Table 1 on page 5 of Exhibit MAG-3. Is the configuration of the supplier evaluation criteria displayed in Table 1 (in terms of weighting) representative of the criteria used by the Company in the past to evaluate supply proposals?

Response

Yes. The evaluation criteria and weightings were very similar to recent RFPs sent out by the Company, but there were some minor differences between the RFPs. For example, the two most recent RFPs for the Company's Portfolio Management contracts had weightings of Reliability 25%, Competitiveness 25%, Diversity 20%, Responsiveness 15%, and Financial Strength 15%. Table 1 from Exhibit MAG-3 did not give any consideration for diversity because the Bidders were told that NSTAR Gas wanted the gas delivered at Waddington. Therefore, this solicitation anticipated placing greater weight on the remaining criteria.

Information Request DTE-1-5

Did the Company evaluate the final four responses to the RFP in accordance with the terms of the supplier evaluation criteria displayed in Table 1 in Exhibit MAG-3? If so, provide the Department with the Company's analysis and outline how each of the four final responses scored.

Response

The Company did not assign specific numerical values to each of the final 4 Bidders because there was no discernable difference between the bids based on the non-price criteria identified in Table 1. To do so would have been a futile exercise because of the price advantage presented by the Constellation contract. However, although no distinct ranking was undertaken, each Bid was considered in the context of the criteria identified in Table 1. A discussion of the evaluation is provided on pages 14 and 15 of Exhibit MAG-1.

For example, there were no significant Reliability differences between the four Bidders, as all four offered firm deliveries at Waddington and took responsibility for all upstream risks and all four would use the same NSTAR Gas assigned capacity to deliver the gas at the NSTAR Gas gate station.

Rankings on Competitiveness would fall in the same order as the net present value ("PV") rankings. Constellation had the lowest net PV of all the Bidders.

There were no significant differences between the four Bidders in Responsiveness, as all Bidders offered either baseload winter supplies or baseload annual supplies. There were minor differences in responsiveness in that three of the four Bidders offered deals for the full five-year term requested, while the fourth offered only a three-year term. Bidders offering full five-year bids would eliminate the need for the Company to go out with another RFP in year 3, which would reduce subsequent price risk and the regulatory costs associated the filing of a subsequent two-year contract, which was a benefit.

Two of the Bidders were rated A+ by S&P and two were rated BBB+. Constellation was rated BBB+ and one of the other five-year term bidders was rated A+. This Bidder had the highest net PV cost to NSTAR Gas of the four finalists. Be cause Constellation's credit rating was high enough to justify a parental guarantee sufficient to cover the contract's default risk, there was no need to award the contract to the higher cost Bidder of the four finalists just because it had a better credit rating.

In summary, the Constellation contract had the lowest net PV cost to NSTAR Gas of the finalists. Its credit rating allowed it to adequately cover its default risk with a parental guaranty. There were no other non-price factors that weighed in favor of the other bids. Therefore, the Company awarded to contract to Constellation.

Information Request DTE-1-6

Refer to Exhibit MAG-4:

A) Explain why certain proposals received during the RFP process did not include an associated management fee.

B) Elaborate on the nature of management fees associated with the various Constellation Power Source, Inc. ("Constellation") proposals identified in this exhibit. What activities or responsibilities do these fees encompass as compensation to Constellation? Why do these fees vary across the range of proposals?

Response

A and B) The Company has no means of determining why certain proposals received during the RFP process did not include a management fee In general, a Bidder's willingness to pay a management fee may be based on their expectations of their ability to generate additional revenues from utilizing the assigned transportation capacity when they are not using it to serve the Company.